

SEMIANNUAL REPORT TO CONGRESS ON AUDIT FOLLOW-UP

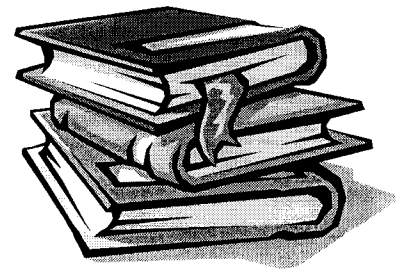
NO. 30

October 1, 2003 through March 31, 2004

UNITED STATES DEPARTMENT OF EDUCATION



Prepared by: Office of the Chief Financial Officer





UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE CHIEF FINANCIAL OFFICER

THE CHIEF FINANCIAL OFFICER

MAY 17 2004

Honorable Rod Paige
Secretary of Education
Washington, DC 20202

Dear Mr. Secretary:

I am pleased to submit the Department of Education's 30th Semiannual Report to Congress on Audit Follow-up, which covers the six-month period ending March 31, 2004. This report highlights the most significant accomplishments and audit management initiatives underway to facilitate the tracking and expedite the implementation of audit recommendations in addressing long-standing management problems at the Department. The report also provides a narrative summary and statistical tables as specified in Section 106(b)(2) (3) and (4) of the Inspector General Act Amendments of 1988 (P.L.100-504).

Over the reporting period, Department managers and staff worked diligently to implement recommendations designed to correct deficiencies reported in prior reports. Our efforts in this area and our determination to effectively oversee the audit resolution process as a whole will continue to receive top priority.

Sincerely,


Jack Martin

Enclosure

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OVERVIEW

The Department of Education (Department) submits its 30th Semiannual Report to the Congress on Audit Follow-up in accordance with requirements of Section 106(b) of the Inspector General Act Amendments of 1988. This report provides information on audit resolution activity during the six-month period from October 1, 2003, through March 31, 2004, as well as significant Department accomplishments and management initiatives that are taking place.

❑ ***Departmental Initiatives***

Several noteworthy initiatives are:

- Positive results continue in the resolution and closure of internal audits (General Accounting Office (GAO) and the Office of Inspector General (ED-OIG) issued audit reports and alternative products). Of the 310 recommendations from all open audits, 36 percent have been completed as of March 31, 2004. Sixty-four percent have been resolved and are awaiting implementation of corrective actions.
- The Department continues to utilize the Cooperative Audit Resolution and Oversight Initiative (CAROI) process to work with states and school districts to provide support and flexibility to implement legislative requirements without impairing accountability for results. During the semiannual period, the Department continued its efforts with the Virgin Islands and Puerto Rico. An on-site review with the Virgin Islands took place in November 2003. Representatives from the Department and Puerto Rico's Department of Education met to discuss and develop actions to address systemic issues.

❑ ***Audit Follow-up Responsibilities***

The Chief Financial Officer is the Department's Audit Follow-up Official, whose duties and responsibilities are:

- Ensuring that a system of audit resolution and follow-up is documented and in place;
- Ensuring that timely responses are made to all audit recommendations;
- Ensuring follow-up on corrective actions; and
- Resolving disputes regarding the necessity or adequacy of proposed corrective actions.

Senior Officers within the Department are charged with the timely resolution of audit reports and ensuring that appropriate corrective actions have been taken on agreed-upon audit recommendations.

OVERVIEW

Audit Follow-up Systems

The Audit Accountability and Resolution Tracking System (AARTS) is the Department's tool to track, monitor and report on the post-audit status of Single Audits, GAO audits, as well as ED-OIG issued internal audits, external audits and alternative products. AARTS replaces two systems, the Common Audit Resolution System and the Internal Audit Electronic Corrective Action Plan System. AARTS has been designed with the capability of creating a synergy of information in a single centralized data source, thereby allowing Department staff to reduce duplication of effort and obtain and share data in a more efficient and expedient manner. It enables the close coordination of efforts among various Department Principal Offices regarding the review of activities, the sharing of information, the monitoring of progress, the generation of reports and the performance of trend analyses.

Specifically, AARTS:

- Tracks internal, external, GAO, sensitive and non-audit product types from issuance of the final report to final disposition.
- Evaluates and escalates points for audit reports and recommendations at appropriate levels in the user hierarchy structure.
- Notifies users of audit decisions and approaching/expired events and transactions.
- Provides back-office file compatibility and file attachment capabilities.
- Provides a personal portal (Digital Dashboard) for user-assigned transactions.
- Features a search function to query application (Audit Report) data.
- Provides for both a defined as well as an ad-hoc report generation environment.

AARTS supports Objective 6.1 of the *Department's Strategic Plan*, which states: "Develop and maintain financial integrity and management and internal controls." It is in response to the Department's Management Improvement Team (MIT), which was established by the Secretary in April 2001. Recommendation No. 140 of the MIT's *Blueprint for Management Excellence* calls for: "Implementing a modified and improved system for monitoring and reporting corrective actions." Implementation of AARTS successfully closed Recommendation No. 140.

Audit Resolution Activity Highlights

- At the end of the semiannual period, 90 audit reports remain in the Department's receivables inventory. The disallowed costs associated with the 90 reports totaled \$68 million (including interest, penalties, and administrative costs). Of the 90 audit reports remaining in the receivables inventory, 33 reports (\$17 million) were over one year old since issuance of a management decision, and 19 reports (\$39 million) were in appeal status.

OVERVIEW

- Administrative actions that are being taken by the Department on audit reports pending final action one year or more after issuance of a management decision include negotiating repayments and settlements, bankruptcy proceedings, transferring delinquent debts to Treasury for collection under the Debt Collection Improvement Act of 1996, and due process notices sent to debtors prior to submission to Treasury for additional collection efforts.
- The Department has a total of seven ED-OIG-issued audit reports on which final action was not taken within one year after the issuance of a management decision. These audits do not contain disallowed costs.
- During the semiannual period, ED-OIG issued five audits with activities related to Recommendations that Funds be Put to Better Use (BUF). One additional audit was issued last semiannual period for which no management decision was made prior to this period. A management decision was made and corrective actions completed on one audit during this semiannual period in the amount of \$7 million.

OVERVIEW

Semiannual Reporting Requirements

Section 106(b) of P.L. 100-504, the 1988 amendments to the Inspector General Act of 1978, specifies the requirements governing the submission of this report. The following table lists these requirements and the applicable pages in this report.

Citation	Topic	Section	Page(s)
106(b)(2)	Statistical tables showing the number of audit reports and dollar value of disallowed costs	Table I	10
106(b)(3)	Statistical tables showing the number of audit reports and dollar value of recommendations that funds be put to better use	Table II	11
106(b)(4)	Statement on audit reports where management decisions have been made but final action has not been taken within one year of the management decision	Table III Table IV	12, 13 14, 15

CHAPTER ONE

Audit Resolution

❏ **The Audit Resolution Process**

The Audit Resolution Process begins with the issuance of a final audit report by ED-OIG, the GAO, or independent auditors. The Department resolves two types of audits -- external and internal/nationwide audit reports. **External audits** are reviews of contract-related, grant-related, or other activities of organizations external to, but doing business with, the Department. **Internal/Nationwide audits** are audits conducted by Headquarters or Regional ED-OIG staff that identify deficiencies and recommend improvements in Department operations and programs to ensure that federal education funds are used effectively and efficiently and that program goals are accomplished. As required by OMB Circular A-50, "Audit Follow-up," all audit recommendations are to be resolved within six months of issuance of an audit report.

A **Management Decision** contains two parts: (1) evaluating the validity of findings and recommendations cited in the audit report, and (2) deciding what course of action is necessary to correct any deficiencies. For external audits, a management decision is presented in the form of a program determination letter (PDL) to the recipient. For internal audits, a management decision is made when the program office responsible for the findings in the audit has developed a corrective action plan to address all recommendations, and ED-OIG has agreed with the actions.

Resolution. For external audits, resolution occurs when the program office makes a management decision and issues a PDL to the grantee. For internal audits, resolution occurs when there is agreement between the program office and ED-OIG on the corrective actions that will be taken to address all of the recommendations cited in the audit.

An audit is **Unresolved** when (1) a PDL has not yet been issued for an external audit, or (2) agreement has not been reached between ED-OIG and the program office on the recommended corrective actions identified in an internal audit.

An internal audit can be considered **Resolved** yet **Open** when there is agreement between ED-OIG and management on the corrective actions that will be taken to implement the recommendations, and management is currently implementing those corrective actions. An internal audit is **Resolved** and **Implemented** when all corrective actions have been implemented. The term "**Final Action**" is often used as well. An internal audit is **Closed** when the Principal Office has certified that all corrective actions have been implemented, and OCFO has verified supporting documentation and issued a Closure Memo.

Final Action for an external audit is when the PDL is issued to the recipient or, if the management decision requires the repayment of funds, when the funds have been repaid or settled to the satisfaction of the Department.

CHAPTER ONE

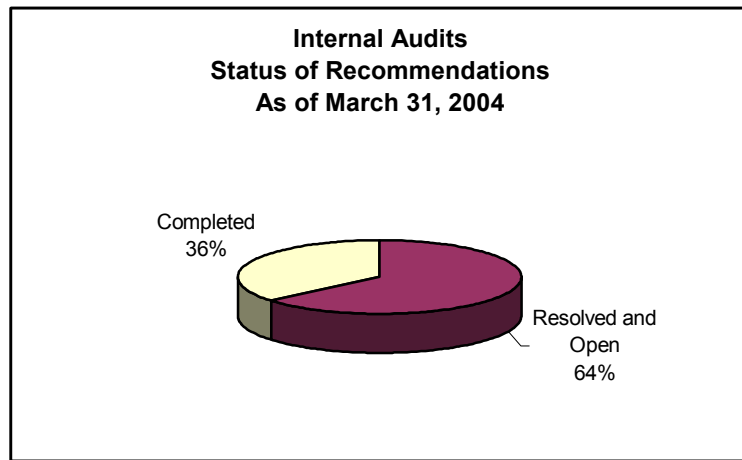
Audit Resolution

Internal Audit Activity

Internal audits include both ED-OIG- and GAO-issued audit reports, in addition to alternative products issued by the ED-OIG (e.g., Action Memoranda, Interim Audit Memoranda, Alert Memoranda, Management Information Reports, Management Letters, and Inspection Reports). Keeping the resolution and implementation of audit recommendations as an action item in the Department's Strategic Plan (Goal 6.1.D.d), continues the much-needed focus on timeliness of activities as well as accountability. The Department's Executive Management Team (EMT) monitors the progress each program office makes on resolving audit recommendations within prescribed time frames and implementing corrective actions in a timely manner. These initiatives have proven invaluable.

Audit recommendations are resolved when there is agreement between the Principal Offices and ED-OIG on the corrective actions that will be taken to address the recommendation. Additionally, when the corrective actions for a recommendation have been implemented, the recommendation is considered completed. The following table and chart show the status of recommendations for all internal audits (including the Financial Statement audit recommendations) as of March 31, 2004. Of the 310 total recommendations from all open audits, 36 percent (112 recommendations) are completed, and 64 percent (198 recommendations) are resolved/open, but awaiting completion of corrective actions.

TOTAL Recommendations	Resolved/Open Recommendations	Completed Recommendations
310	198	112



CHAPTER ONE

Audit Resolution

Cooperative Audit Resolution and Oversight (CAROI) Initiative

The Department has been working with states and school districts to provide support and flexibility to implement legislative requirements without impairing accountability for results. Since its inception in July 1995, CAROI has used four strategies to advance this objective: (1) creating and maintaining dialogue with states; (2) working with states to address audit findings that are open or under appeal; (3) improving the process used in single audits of federal aid recipients (annual or biennial evaluations of financial operations and compliance requirements of all major programs in accordance with the Single Audit Act); and (4) coordinating within the Department the resolution of audit findings with monitoring site visits and technical assistance.

CAROI Projects – As of March 31, 2004, the Department had undertaken 39 CAROI projects in 22 states, the District of Columbia, and two U.S. Territories. The Department's efforts in CAROI have recently been focused on Puerto Rico and the Virgin Islands (VI). The Department has been working closely with program offices and auditors to address recurrent audit deficiencies involving the Puerto Rico Department of Education's (PRDE) management of the Department's programs, taking steps to correct longstanding problems in PRDE's management of its federal funds. The Department has also been working with the VI government in connection with a Compliance Agreement, executed in September 2002, to address longstanding deficiencies in VI's financial management, property and procurement, and program administration. In implementing the Compliance Agreement, the Department has been providing VI with technical assistance and has been coordinating its activities with other federal agencies whose grants to VI have been similarly affected.

Reduction of Recurring Findings/Management Decisions Under Appeal - The record shows that, overall, the Department has noticed a reduction in recurring findings each year as the partnerships among federal, state and local officials; auditors; and program managers continue to increase and provide creative and practical approaches to resolve audit findings as well as their underlying causes. Since 1995, there has been a substantial reduction in the number of repeat findings in the statewide single audits. The Department has also experienced a reduction in the number of states under litigation as a result of audit appeals, which is a substantial cost benefit both at the state and federal levels. These reductions in recurring findings and appeals have been accomplished while at the same time ensuring that our recipients of federal education funds are not compromising the integrity, accountability, and purpose of those funds or, to put it simply, to ensure that students receive the maximum benefit from education programs.

CHAPTER ONE

Audit Resolution

For more information on CAROI, please visit the Department's web site at:

www.ed.gov/inits/CAROI

CHAPTER TWO

Audit Activities Related to Disallowed Costs and BUF

Table I presents statistical information on the Department's audit recovery activities related to disallowed costs. *Disallowed costs* are questioned costs that management, in a management decision, has sustained or agreed should not be charged to the federal government. This Table includes only audit reports for which receivables were established.

Table I Final Actions on Audit Reports with Disallowed Costs		
	Number of Reports	Disallowed Costs
A. Balance reported at the end of previous period	80	\$71,510,544
B. Plus: Audit reports with management decisions made during the period (includes interest, penalty and fine accruals)	81	\$6,875,831
C. Total audit reports pending final action during the period	161	\$78,386,375
D. Less: Audit reports with final action taken during the period	71	
1. Collections		\$1,581,335
2. Other reductions		\$8,813,724
E. Audit reports pending final action at the end of the period	90	\$67,991,316

CHAPTER TWO

Audit Activities Related to Disallowed Costs and BUF

Table II presents data on the Department's activities related to Recommendations that Funds Be Put to Better Use (BUF). BUF is a recommendation that funds could be used more efficiently if responsible officials took actions to implement and complete the recommendations by means including: (a) reductions in outlays; (b) deobligation of funds from programs or operations; (c) withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds; (d) costs not incurred by implementing recommended improvements related to the operations of the Department, a contractor or grantee; or (e) any other savings that are specifically identified.

Table II Final Actions on Audit Reports With Recommendations That Funds Be Put To Better Use		
	Number of Reports	Disallowed Costs
A. Audit reports with management decisions on which final actions had not been taken at the beginning of the period	0	0
B. Audit reports on which management decisions were made during the period	1	\$7,383,859
C. Total: Audit Reports Pending Final Action During the Period (A Plus B)	1	\$7,383,859
D. Audit reports on which final action was taken during the period		
1. Value of Recommendations Implemented (Completed)	1	\$7,383,859
2. Value of Recommendations that Management Concluded Should Not or Could Not be Implemented or Completed	0	0
3. Total Audit Reports on Which Final Action Was Taken During the Period action at the end of the period	1	\$7,383,859
E. Audit reports needing final action at the end of the period	0	0

Note: During the semiannual period, OIG issued a total of 5 audits with BUF. Management decisions are pending on these five audits, as well as one audit that was issued during the previous semiannual period.

CHAPTER THREE

Reports Pending Final Action One Year or More After Issuance of a Management Decision

Table III lists audit reports with disallowed costs owed the Department on which final action was not taken within one year of the issuance of a management decision on the report. Disallowed costs are questioned costs that management, in a management decision, has sustained or agreed should not be charged to the federal government. In this category, the Department has a total of 33 reports with disallowed costs amounting to \$17 million and 19 reports in appeal status amounting to \$39 million. Table III also provides information that explains why final action has not been taken.

Such information concerns:

Billing – The debtor is actively being billed. The billing process may have begun a long time after the management decision due to a long appeal process.

OCFO – Review – The Office of the Chief Financial Officer (OCFO) is negotiating with the debtor to secure repayment.

Bankruptcy – The debtor has filed for bankruptcy and the case is pending. The debtor is not billed as long as the bankruptcy case is unresolved.

OGC – Review – The Office of the General Counsel (OGC) is negotiating a settlement agreement.

Department of Justice (DOJ) –Referral– A debt has been referred to DOJ for litigation or write-off approval.

Due Process Notice Sent – The debtor has been mailed a final notice prior to the debt being sent to the Department of Treasury for additional collection action.

Audit Control Number	Date Issued	Date of Management Decision	Disallowed Costs Owed	Reason Final Action Not Complete After One Year
0206144	07/27/2000	03/27/2001	\$980,122	Bankruptcy
0371397	09/14/1987	09/14/1987	\$75,960	DOJ - Referral
0411000	12/14/2001	06/12/2002	\$1,523,159	Bankruptcy
0411001	11/20/2001	05/24/2002	\$50,098	Treasury Due Process
0418469H	04/19/2001	09/09/2002	\$101,177	Billing
0478335	11/07/1997	08/27/1998	\$1,475,292	Bankruptcy
0521669	09/12/1995	03/27/1996	\$858,533	Bankruptcy
0590510	07/13/1989	01/18/1990	\$9,841,474	DOJ – Referral
0611008	10/24/2001	09/10/2002	\$423,992	Bankruptcy

CHAPTER THREE

Reports Pending Final Action One Year or More After Issuance of a Management Decision

Table III

Disallowed Costs Owed the Department Pending Final Action One Year Or More After Issuance of a Management Decision

Audit Control Number	Date Issued	Date of Management Decision	Disallowed Costs Owed	Reason Final Action Not Complete After One Year
0631225	08/31/1993	06/30/1994	\$50,367	Bankruptcy
0690011	02/08/2000	09/26/2002	\$833,897	Bankruptcy
0803201	03/07/1990	09/25/1990	\$266,719	OGC - Review
0901003	02/12/2003	02/12/2003	\$88,399	Bankruptcy
0911273	08/06/1991	02/28/1992	\$59,805	OCFO – Review
1004014	03/16/2000	08/10/2000	\$353,771	Treasury Due Process
Subtotal			\$16,982,766	(15 Reports)
Audits <\$50,000			\$202,816	(18 Reports)
Audits in Appeal			\$39,021,290	(19 Reports)
TOTAL			\$56,206,872	(52 Reports)

Note: The Department has 38 reports with disallowed costs that are less than one year old from issuance of the management decision. These 38 reports amount to \$11 million.

CHAPTER THREE

Reports Pending Final Action One Year or More After Issuance of a Management Decision

Table IV lists each ED-OIG prepared internal and nationwide audit report on which final action was not taken within one year after the issuance of a management decision on the report. In this category, the Department has a total of seven reports.

Table IV
ED-OIG Prepared Internal and Nationwide Audit Reports Pending Final Action One Year or More After Issuance of a Management Decision

Audit No.	Report Title	Date Issued	Date of Mgmt Decision
03-B0001	ED & Test-Publisher Controls for ATB Test Administrative Oversight	08/22/2002	03/07/2003
Status: All corrective actions are scheduled for completion by April 30, 2004			
03-B0018	Audit of Department Discretionary Grants Monitoring Process	10/24/2001	03/26/2002
Status: The ACS Discretionary Grants Process Handbook was issued on March 31, 2003. The issuance of the Handbook substantially fulfilled the promised corrective actions on this audit. Training on the Handbook should be completed by September 30, 2004. The other remaining corrective action will be completed December 30, 2004, pending funding of the Grants Administration & Payments System enhancements.			
05-A0025	Great Lakes Higher Education Guaranty Corp's Administration of the Federal Family Education Loan	03/30/2001	01/31/2002
Status: The Department (FSA) is in the process of contracting services to provide independent evaluations of federal assets held by guaranty agencies. Based on the results of the independent evaluation, the Department will negotiate specific sale/lease agreements. Expected completion date is December 31, 2004.			
06-A0020	FSA's Application Verification Process	03/28/2002	06/30/2002
Status: FSA has reported that all corrective actions have been implemented. Closure of the audit should take place by mid April 2004.			

CHAPTER THREE

Reports Pending Final Action One Year or More After Issuance of a Management Decision

07-B0016	The Dept's Management Controls Over Discretionary Grants Need to be Strengthened to Ensure Grant Accountability	09/30/2002	01/31/2003
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Status: Only three corrective actions remain open for this audit. All three of these open actions are related to the implementation in GAPS of the large available balance report. This report is ready for roll-out in GAPS and will be implemented by December 31, 2004.

07-C0001	Audit of Enterprise Architecture	09/30/2002	01/31/2003
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Status: All corrective actions are scheduled for completion by April 30, 2004.

19-B0009	Audit to Evaluate the Department of Education's Process for Identifying and Monitoring High-Risk Contracts that Support Office of Educational Research and Improvement programs	09/20/2003	02/28/2003
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Status: All corrective actions are scheduled for completion in mid April 2004.

APPENDIX

List of Abbreviations

AARTS	Audit Accountability and Resolution Tracking System
BUF	Better Use of Funds
CAROI	Cooperative Audit Resolution and Oversight Initiative
DOJ	U. S. Department of Justice
ED	Education
ED-OIG	Office of Inspector General
EMT	Executive Management Team
FSA	Federal Student Aid
GAO	General Accounting Office
MIT	Management Improvement Team
OCFO	Office of the Chief Financial Officer
OGC	Office of the General Counsel
OMB	Office of Management and Budget
OPE	Office of Postsecondary Education
PDL	Program Determination Letter

If you would like a copy of this report, please send your request to:

***SEMIANNUAL REPORT ON AUDIT FOLLOW-UP
U. S. Department of Education
Office of the Chief Financial Officer
400 Maryland Avenue, SW
Washington, DC 20202-4245***

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<http://www.ed.gov/about/offices/list/ocfo/pubs.html>